



CONSOLIDATED FINANCIAL STATEMENT OF GRUPA
KAPITAŁOWA ARTERIA S.A. FOR 2019

LETTER BY THE PRESIDENT OF THE MANAGEMENT BOARD TO SHAREHOLDERS OF ARTERIA S.A.

Dear Reader,

Year 2019 was a reporting period in which the Issuer could be proud again of its increased consolidated revenues which amounted to 190 m zlotys and were 7.5% higher than during the preceding 12 months. During that period, the EBITDA measure reached 11.5 m zlotys and the net profit exceeded 2.7 m zlotys. Despite the objective difficulties which the outsourcing market had to face, including the price pressure or the recruitment of specialists, the Management Board of the Issuer has managed to improve the financial results and the liquidity situation of the Capital Group by significantly reducing long-term liabilities and regularly decreasing financial operating costs while raising the amount of cash.



The leading segment of the operation of Grupa Kapitałowa Arteria S.A. in 2019 was the sales of call center services which brought revenues amounting to 122.5 m zlotys in the last year (increase by 12%), which nearly accounted for 65% of the total sale. The increase of revenues in the segment was possible both due to the expanding scale of sales of services to the current customers under long-term contracts which are prolonged over consecutive periods and acquiring new contracts. Thanks to the business scalability, the Issuer's strategic objective for 2019 was to look for large individual and regional customers to whom large-scale services can be delivered, also under the *nearshoring* model, i.e. by means of its experience as well as technical and human resources located in Poland. At the present moment, Grupa Kapitałowa Arteria S.A. provides services in 13 markets of the Central and Eastern Europe and Northern Africa in 9-10 languages.

Apart from the increase of revenues, the Management Board of Arteria S.A. was working on the improvement of efficiency indicators. As a result, it successfully secured the long-term contracts which were crucial for the Issuer's future by indexing remuneration, at least with an index depending on the minimum remuneration increase. This particularly applies to contracts carried out for state-controlled companies in which there was no possibility to index revenues for the last three years. Plans for 2020 include the development of the call center segment which is to be founded on a long-lasting collaboration with companies in the energy, telecommunication and other sectors. After the end of the reporting period, the Issuer informed about the conclusion of an agreement (via subsidiary companies) new agreements with Tauron Obsługa Klienta Sp z o.o. on the provision of Call Center services in the customer service and product sales areas, the 991 alarm line operation and an agreement on the delivery of the Business Process Outsourcing services to Orange Polska S.A.

The other leading segment of the Issuer's operation in the reporting period was the Sales Support division which brought revenues of nearly 62 m zlotys in 2019, which was 32.5% of the total sales; the revenues continued to be stable as compared to the previous year, which gave reasonable hopes for the improvement of results in the current year.

The occurrence of the COVID-19 coronavirus pandemic and the consequently implemented administrative restrictions brought the need to verify the Issuer's original development plans and budgets for 2020. The Management Board assesses that this situation will have a very significant effect on the results achieved both in the first and in the subsequent quarters of this year, particularly on the sales level which will be lower than planned. Actions were immediately undertaken to limit the adverse financial results of the epidemic threat by, among other things, postponing investing expenses, reviewing costs and their reducibility as well as developing long-term saving scenarios, the implementation of which will depend on the duration of the pandemic and its ultimate effects on the Polish economy. Remote work mode was implemented wherever possible.

However, I am convinced that the effort which we jointly made to develop the Capital Group in 2019 and the previous years will let us not only maintain but also reinforce the Issuer's market position, particularly taking into account the economic environment in which we are to operate during the nearest months, and increase the capitalisation of the Company in the long run to make it reflect the true potential and the actual market position. The Annual Statement presents detailed financial data on the Issuer's operation in 2019 and contains a wider comment on the risks and threats related to the coronavirus pandemic and the economic slowdown.

I extend my thanks to everyone who contributed to the achievements of Arteria S.A. in 2019.

Yours faithfully,

Marcin Marzec

President of the Management
Board of Arteria S.A.

SELECTED CONSOLIDATED FINANCIAL DATA

Selected financial data concerning consolidated financial statements		in thousand PLN		in thousand EUR	
		01.01.2019 31.12.2019	01.01.2018 31.12.2018	01.01.2019 31.12.2019	01.01.2018 31.12.2018
1.	Net sales revenue	190 274	176 982	44 231	41 478
2.	Profit (loss) on operating activities	5 378	5 283	1 250	1 238
3.	Profit (loss) before tax	3 794	3 406	882	798
4.	Net profit (loss) allocated to parent entity	2 658	2 590	618	607
5.	Average weighted number of shares	4 269 520	4 269 520	4 269 520	4 269 520
6.	Cash flow from operating activities	10 552	13 552	2 453	3 176
7.	Net investment cash flows	-4 322	(4 164)	(1 005)	(976)
8.	Cash flow from financial activities	-5 055	(8 052)	(1 175)	(1 887)
9.	Total net cash flows	1 175	1 336	273	313
10.	Fixed assets	50 571	50 847	11 875	11 825
11.	Current assets	78 029	70 881	18 323	16 484
12.	Total assets	128 600	121 728	30 198	28 309
13.	Total liabilities	78 238	73 017	18 372	16 981
14.	Long-term liabilities	8 591	19 527	2 017	4 541
15.	Short-term liabilities	69 647	53 490	16 355	12 440
16.	Equity	50 362	48 711	11 826	11 328
17.	Share capital	854	854	201	199
18.	Number of shares	4 269 520	4 269 520	4 269 520	4 269 520
19.	Profit (loss) per ordinary share (PLN/EUR)	0,62 PLN	0,61 PLN	0,14 EUR	0,14 EUR
20.	Book value per share (PLN/EUR)	11,80 PLN	11,41 PLN	2,77 EUR	2,65 EUR

Exchange rates adopted for balance sheet valuation

<i>Exchange rate at the end of the period</i>	31.12.2019	31.12.2018
EUR 1/PLN 1	4,2585	4,3000

Exchange rates adopted for valuation of profit and loss account and cash flow account

<i>Average exchange rate calculated as arithmetic mean of exchange rates at the end of every month of the period</i>	31.12.2019	31.12.2018
EUR 1/PLN 1	4,3018	4,2669

ANNUAL CONSOLIDATED FINANCIAL STATEMENT OF ARTERIA S.A. FOR 2019

1. ANNUAL CONSOLIDATED TOTAL INCOME STATEMENT

	Note	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Revenues from sales	6.1.	190,274	176,982
Operating expenses	6.2.	(185,065)	(172,157)
Gross profit (loss) on sales		5,209	4,825
Other operating revenues	6.3.	1,452	1,613
Other operating expenses	6.4.	(1,283)	(1,155)
Profit (loss) on operating activities		5,378	5,283
Financial revenues	6.5.	112	262
Financial expenses	6.6.	(1,696)	(2,139)
Gross profit (loss)		3,794	3,406
Income tax	6.7.	(480)	(743)
Net profit (loss)		3,314	2,663
Net profit (loss) on discontinued operations		(656)	-
Net profit (loss) on continued and discontinued operations		2,658	2,663
Net profit (loss) attributable to non-controlling shares		-	73
Net profit (loss) attributable to the Parent Company		2,658	2,590
Total comprehensive income		2,658	2,663
Total income attributable to non-controlling shares		-	73
Total income attributable to the Parent Company		2,658	2,590
Number of shares		4,269,520	4,269,520
Net profit (loss) attributable to the Parent Company per one share		PLN 0.62	PLN 0.61
- basic profit for the period		PLN 0.62	PLN 0.61
- diluted profit for the period		PLN 0.62	PLN 0.61

2. ANNUAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31/12/2019	31/12/2018
Fixed (long-term) assets		50,571	50,847
Tangible fixed assets	6.10.	8,790	9,004
Intangible assets	6.11.	20,305	21,670
Goodwill	6.12.	6,684	5,782
Investments in associated and other units	6.13.	7,283	7,784
Long-term receivables	6.14.	600	600
Long-term loans granted	6.15.	2,854	1,145
Deferred tax assets	6.9.	4,055	4,862
Current (short-term) assets		78,029	70,881
Inventory		3,557	3,473
Trade receivables and other receivables	6.16.	65,127	60,850
Tax receivables	6.17.	1,929	2,033
Cash in hand and at bank	6.18.	3,551	2,376
Short-term loans granted	6.15.	6	1,903
Other financial assets		-	-
Other assets		373	246
Fixed assets held for sale	6.19.	3,486	-
TOTAL ASSETS		128,600	121,728

	Note	31/12/2019	31/12/2018
Equity attributable to the Parent Company		50,362	48,601
Share capital	6.20.	854	854
Share premium in excess of par value	6.21.	23,640	23,640
Reserve capital	6.22.	8,245	8,245
Retained profits		14,965	13,272
Financial result of the current year		2,658	2,590
Non-controlling shares in the equity		-	110
Total equity		50,362	48,711
Long-term liabilities		8,591	19,527
Long-term credits	6.24.	3,571	13,479
Long-term leases	6.25.	256	335
Other long-term liabilities	6.27.	363	620
Long-term reserves		41	41
Deferred income tax reserve	6.9.	4,360	5,052
Short-term liabilities		69,647	53,490
Liabilities from the issue of debt securities	6.23.	7,005	7,006
Short-term credits	6.24.	13,263	7,454
Short-term leases	6.25.	251	450
Trade liabilities	6.26.	30,968	28,430
Other short-term liabilities	6.27.	2,777	3,177
Liabilities related to payroll		2,367	1,349
Current tax liabilities	6.28.	8,844	4,641
Short-term provisions	6.29.	1,017	983
Liabilities associated with fixed assets held for sale	6.19.	3,155	-
Total liabilities		78,238	73,017
EQUITY PLUS LIABILITIES		128,600	121,728

3. CONSOLIDATED ANNUAL CASH FLOW STATEMENT

	01/01/2019 31/12/2019	01/01/2018 31/12/2018
<u>OPERATING activities</u>		
Gross profit / (loss)	3,794	3,406
Adjustments of items:		
Amortisation and depreciation	6,139	6,666
Interest and share in profits	1,200	1,568
Profit / Loss on investing activities	58	37
Change in provisions	34	(35)
Change in inventory	(128)	(876)
Change in receivables	(11,676)	(7,605)
Change in short-term liabilities	14,340	9,241
Change in accruals and prepayments	(735)	2,091
Profit on sales of fixed assets	(275)	(261)
Other adjustments	(1,655)	(204)
Income tax (paid/returned)	(544)	(476)
Net cash flow from operating activities	10,552	13,552
<u>INVESTING activities</u>		
Disposal of tangible and intangible fixed assets	321	277
Purchase of tangible and intangible fixed assets	(4,503)	(4,807)
Disposal of financial assets	-	82
Acquisition of subsidiary	(323)	-
Dividends and interest received	24	-
Repayment of granted loans	412	513
Granting of loans	(253)	(229)
Other	-	-
Net cash flows from investing activities	(4,322)	(4,164)
<u>FINANCIAL activities</u>		
Proceeds from issuance of debt securities	-	(9,000)
Redemption of debt securities	-	-
Proceeds from contracted loans/credits	2,337	10,541
Acquisition of own shares	-	-
Repayment of loans/credits	(5,635)	(6,897)
Dividends paid to shareholders of the Parent Company	-	(70)
Paid interest, including:	(1,293)	(1,799)
Payment of liabilities arising from financial lease contracts	(464)	(827)
Other	-	-
Net cash from financing activities	(5,055)	(8,052)
Cash opening balance	2,376	1,040
Net cash flows	1,175	1,336
Cash closing balance	3,551	2,376

4. EVENTS ARISING AFTER THE BALANCE SHEET DATE

The COVID-19 pandemic, commonly referred to as the coronavirus, declared on 11 March 2020 by the World Health Organisation, should be considered as an event having a serious impact on the Company's financial condition after the balance sheet date. According to IAS 10, as an event which followed the balance sheet date, it did not require the results of the separate financial statement made as of 31 December 2019 to be adjusted because it was only caused by the actual state which arose after the reporting period.

General assessment of effects of the coronavirus COVID-19 pandemic and the related administrative restrictions on the current situation of the Company and its future development perspectives

The occurrence of the epidemic state in Poland had a significant effect on the operation and the financial results of Grupa Kapitałowa Arteria S.A. ("Grupa Arteria") both during the last weeks of the first quarter and in the second quarter of 2020. At this stage it is not possible to precisely estimate all losses suffered by Grupa Arteria; however, it can certainly be assumed that their scale will require the budgets and development plans of Grupa Arteria for the current year to be considerably verified, especially on the level of the assumed sales revenues. Considering Grupa Arteria's highly diversified operations which are run in the market of the BPO (Business Process Outsourcing) services within two business segments (Contact Center, Sales Support), the effect of the pandemic and the consequently implemented domestic administrative restrictions was mixed and depended on many factors such as: service type, effect of the administrative restrictions on the ability to carry out contracts, customers' decisions on the scale of collaboration during the pandemic, limitations of budgets held for the performance of contracts, promotional campaigns and marketing activities. Due to the aforementioned factors, it is estimated that, during that period, the revenues of Grupa Arteria fell by at least a dozen or so percent in case of services in the contact center and business process operation segment up to several dozen or more percent in case of services based on promotional and marketing budgets.

The segment of contact center and business process operation services was doing relatively best during the coronavirus pandemic and the restrictions which were consequently implemented and imposed on business operations of Grupa Arteria. The specific nature of this sector requires that a large team of consultants who carry out entrusted tasks while working in a common location is maintained. Therefore the information about the possible occurrence of the pandemic in Poland and then the official implementation of administrative restrictions caused a noticeable absence of employees during the first period. Additionally, a considerable number of contracting parties who carried out the so-called outgoing projects consisting in, among other things, setting up meetings with customers in a traditional form, withheld their orders. In result, most projects suffered about two-week-long standstills. This required that the Management Board of the company undertook immediate actions to rearrange the model of work which had been employed up to that moment to deliver services. In cooperation with customers, a remote work model based on technological solutions allowing to carry out contracts without necessarily keeping most employees present at current locations has been implemented. This applied to about 70% of consultants. In the so-called outgoing projects, necessary changes have been implemented in the current range of services in order to make it possible to set up meetings by means of remote tools such as teleconferencing. As a result, a significant part of the current scale of services has been successfully relaunched and, in case of the so-called incoming calls (infoline), actually even expanded whenever the customers decided to temporarily close the stationary customer service centers. Within its portfolio of services, Grupa Arteria uses a wide range of technical solutions, including solutions supporting the remote work mode, which has also helped maintain a considerable amount of contracts and corporate operability in this segment of contracts.

However, Grupa Arteria recorded a significant decrease of revenues in the Sales Support segment. It was caused by domestically implemented administrative restrictions which, among others, limited the freedom of movement, travelling and sales, particularly resulting in closure of shopping malls and megastores. As a result of that, the customers of Grupa Arteria withheld most planned actions based on marketing budgets to be spent on promotional campaigns of goods and services until the administrative sanctions are abolished and the economy is unfrozen. All events were cancelled and promotional budgets related to, among others, the performance of advertising campaigns, especially in case of outdoor carriers, were drastically reduced. This caused a significant drop of Grupa Arteria's revenues coming from the operations in the Sales Support segment while, in case of a subsidiary mainly dealing with the organisation of mass events for customers (Brave Agency Sp. z o.o.), its operational capabilities were totally lost and the operation was closed down.

To minimise the negative effects of the pandemic, the Management Board of Arteria S.A. undertook all actions aimed at protecting the assets, particularly by ensuring a continuity of the operations under the sanitary regime and maintaining permanent contact with its customers. Thanks to its several-year-long presence on the market, Grupa Arteria built a wide and diversified customer portfolio based on long-term contacts and business

relations. Therefore, despite the fact that a considerable part of campaigns planned for the first half of the year were withheld and, as a result, revenues were decreased, Grupa Arteria did not lose its customers and the planned actions are to be carried out - as declared by the business partners - in subsequent reporting periods. Companies within Grupa Arteria also sought, if possible, to partly transfer the marketing budgets into the digital zone, related both with the advertisement and the organisation of meetings and events in the form of teleconferencing.

Summing up the effect of the pandemic on Grupa Arteria's operation, it should be emphasized that it has significantly influenced the first and second quarters' results and, in consequence, the results of the entire year 2020, particularly the assumed revenues and profitability levels. At the same time, in the opinion of the Management Board of the Company, Grupa Arteria's financial liquidity and operations will continue unthreatened thanks to a number of operating actions, changes in the organisation structure, cost savings and external financing acquired from the so-called anti-crisis shield. It cannot be excluded, however, that the risks and threats described above will eventually have a stronger effect on the operations of Grupa Arteria than originally assumed.

Effect of coronavirus-related risks on the loss of value of financial and non-financial assets.

The occurrence of coronavirus and the consequently implemented domestic administrative restrictions have resulted in, among others, cancellations of mass events and significant reductions of marketing and advertising budgets of many firms. Despite that, the operations of companies within Grupa Arteria seem to be unthreatened; however, at this point, the Management Board is still not able to finally estimate the effect of the pandemic on the loss of value of its financial and non-financial assets.

Effect of the epidemic on securities

In the opinion of the Management Board of the Company, the situation related to the domestic occurrence of the state of epidemic should not have a serious impact on the level and value of the assets which constitute the credit collateral of Grupa Arteria.

Reduced demand for goods/services of Grupa Arteria.

The situation related to the occurrence of the pandemic has obviously caused operating conditions to deteriorate for many enterprises in relation to the falling demand for many products and services. So, there is a justified risk that some of the present or future customers of Grupa Arteria will make a decision to reduce the scale of the current cooperation or to suspend the performance of contracts, despite having declared earlier to use the services offered by the companies in Grupa Arteria. Presently this applies to a relatively small number of customers of Grupa Arteria but one cannot exclude a future increase of this risk. Due to the diversified model of the outsourcing operation run by the Company in the contact center, Sales Support and Marketing segments, the impact of this phenomenon varies depending on the segment, the scope of operation and external factors which are presently beyond the control of Grupa Arteria.

Closing the sales markets.

Despite the pandemic threat, the Management Board of the Company assumes that it will maintain the current sales markets for its goods and services and it assesses the risk of losing them as relatively unlikely.

Governmental administrative restrictions on operations

The introduction of administrative domestic restrictions has made it impossible to freely move and travel, caused shopping malls to be closed and markedly limited trade activities and traditional contacts with customers, which resulted in, among other things, a significant reduction of customer service, sales support and marketing budgets. This situation has also affected some of Grupa Arteria's customers, which will cause some of this year's planned revenues to be lost. The administrative restrictions have also enforced the need to change the way in which the operations of Grupa Arteria are currently organised and to delegate a large part of the team to work under the remote system. The Management Board of the Company also ensured that the operations of Grupa Arteria were run during the pandemic in accordance with the Chief Sanitary Inspector's recommendations aiming at limiting the risk of contracting infections. This was related to the additional costs of sanitary restrictions such as the necessity to provide all rooms and offices with disinfectants and to adapt workspace so as to ensure that the proper social distancing is maintained.

Credit and liquidity risk

The coronavirus pandemic had an adverse effect on the domestic and global economy. As economists generally predict, this effect may be of a long-lasting nature also when the risk posed by COVID-19 ceases to exist (or is

significantly reduced). This situation may adversely affect the subsequent development of Grupa Arteria, especially when the customer's demand for selected services is significantly lower, on the financial position of Grupa Arteria and the deterioration of financial liquidity. It may cause an additional credit risk, unusually high unrecoverable debt level and even a need to make write-offs. The Management Board of the Issuer tries to limit the risk of periodical liquidity problems by means of external sources of financing such, in the first place, subsidies available under aid programs for enterprises within the so-called anti-crisis shield.

The Company has provided additional information about the effect of the coronavirus on the Company's development during the next quarters and identified risks related to the occurrence of the pandemic in clause 2.5 and 2.6. "Management Board Reports on Operations of Grupa Kapitałowa Arteria S.A. in 2019"

In the opinion of the Management Board, apart from the events disclosed in this financial statement, no other events followed the balance sheet date that would have a significant effect on the financial situation of Grupa Kapitałowa Arteria S.A. and would need to be taken into account.

5. SIGNATURES OF PERSONS PREPARING AND APPROVING THE FINANCIAL STATEMENT

The statement was prepared by:

Andrzej Pulut
*Responsible for keeping
the accounting books*

The financial statement was approved by the Management Board of Arteria S.A. on 30 June 2020.

Marcin Marzec
President of Management Board

Sebastian Pielach
Vice-President of Management Board

Wojciech Glapa
Vice-President of Management Board